



Financial Statements  
December 31, 2009 and 2008

# Bowdle Hospital and Nursing Home

# **BOWDLE HOSPITAL AND NURSING HOME**

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## INDEPENDENT AUDITOR'S REPORT

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The Board of Directors  
Bowdle Hospital and Nursing Home  
Bowdle, South Dakota

We have audited the accompanying balance sheets of **Bowdle Hospital and Nursing Home, (Facility)** an enterprise fund of the City of Bowdle, South Dakota, as of December 31, 2009 and 2008 and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only **Bowdle Hospital and Nursing Home**, an enterprise fund of the City of Bowdle, South Dakota, and are not intended to present fairly the financial position of the City of Bowdle, South Dakota, and the results of the revenues, expenses and changes in net assets, and cash flows of its proprietary and similar fund types in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Bowdle Hospital and Nursing Home**, an enterprise fund of the City of Bowdle, SD, as of December 31, 2009 and 2008, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2010 on our consideration of **Bowdle Hospital and Nursing Home's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Sioux Falls, South Dakota  
April 27, 2010

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**BOWDLE HOSPITAL AND NURSING HOME**  
**BALANCE SHEETS**  
**DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 363,821	\$ 505,028
Cash - resident trust fund	637	643
Current portion of restricted cash held by Trustee	77,113	79,213
Receivables		
Patient and resident, net of estimated uncollectibles		
of \$350,000 in 2009 and \$495,000 in 2008	365,233	472,354
Estimated third party payor settlements	105,000	120,000
Due from City of Bowdle	19,577	-
Supplies	115,329	101,707
Prepaid expenses	2,627	1,101
	<u>1,049,337</u>	<u>1,280,046</u>
<b>NONCURRENT CASH</b>		
Held by Trustee for debt service	20,729	74,427
Restricted by contributors for capital acquisitions	5,680	5,616
	<u>26,409</u>	<u>80,043</u>
<b>CAPITAL ASSETS</b>		
Land	6,000	6,000
Depreciable capital assets, net of accumulated depreciation	1,440,741	1,625,282
	<u>1,446,741</u>	<u>1,631,282</u>
<b>OTHER ASSETS</b>		
Deferred financing costs, net of accumulated		
amortization of \$4,168 in 2009 and \$3,410 in 2008	7,389	8,147
Discount on certificates of participation,		
net of accumulated amortization of \$7,348		
in 2009 and \$6,012 in 2008	13,027	14,363
	<u>20,416</u>	<u>22,510</u>
<b>Total other assets</b>		
	<u>20,416</u>	<u>22,510</u>
<b>Total assets</b>	<u><u>\$ 2,542,903</u></u>	<u><u>\$ 3,013,881</u></u>

See Notes to Financial Statements

	<u>2009</u>	<u>2008</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Due to City of Bowdle	\$ -	\$ 50,894
Current maturities of long-term debt	102,327	99,786
Accounts payable	99,088	134,171
Accrued expenses		
Salaries and wages	58,818	124,351
Compensated absences	98,282	50,811
Interest	7,288	9,503
Payroll taxes and other	13,743	16,105
Resident trust fund	637	643
Deferred grant revenue	33,476	32,701
	<u>413,659</u>	<u>518,965</u>
Total current liabilities		
	413,659	518,965
 LONG-TERM DEBT, less current maturities	 657,267	 759,796
  <b>OTHER LONG TERM LIABILITIES</b>		
Compensated absences	-	37,097
	<u>1,070,926</u>	<u>1,315,858</u>
Total liabilities		
  <b>NET ASSETS</b>		
Invested in capital assets, net of related debt	687,147	771,700
Restricted		
For debt service	17,140	73,132
Expendable for capital improvements	5,680	5,616
Unrestricted	762,010	847,575
	<u>1,471,977</u>	<u>1,698,023</u>
Total net assets		
	1,471,977	1,698,023
 Total liabilities and net assets	 <u>\$ 2,542,903</u>	 <u>\$ 3,013,881</u>

**BOWDLE HOSPITAL AND NURSING HOME**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>OPERATING REVENUES</b>		
Net patient and resident service revenue (net of provisions for bad debt of \$110,815 in 2009 and \$126,225 in 2008)	\$ 3,503,376	\$ 3,629,702
Other revenue	<u>40,255</u>	<u>23,008</u>
Total revenues, gains, and other support	<u>3,543,631</u>	<u>3,652,710</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	1,898,316	1,854,644
Employee benefits	355,320	420,021
Supplies and other expenses	1,131,029	1,208,117
Insurance	92,060	88,576
Depreciation and amortization	<u>265,260</u>	<u>242,585</u>
Total expenses	<u>3,741,985</u>	<u>3,813,943</u>
<b>OPERATING LOSS</b>	<u>(198,354)</u>	<u>(161,233)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	4,401	8,284
Interest expense	(48,219)	(44,141)
Noncapital grants and contributions	16,126	16,759
Gain on disposal of assets	<u>-</u>	<u>200</u>
Net nonoperating expenses	<u>(27,692)</u>	<u>(18,898)</u>
<b>EXCESS OF EXPENSES OVER REVENUES</b>	<u>(226,046)</u>	<u>(180,131)</u>
<b>CAPITAL GRANTS AND CONTRIBUTIONS</b>		
Grants for equipment purchases	<u>-</u>	<u>5,000</u>
<b>DECREASE IN NET ASSETS</b>	<u>(226,046)</u>	<u>(175,131)</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>1,698,023</u>	<u>1,873,154</u>
<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 1,471,977</u></u>	<u><u>\$ 1,698,023</u></u>

**BOWDLE HOSPITAL AND NURSING HOME**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>OPERATING ACTIVITIES</b>		
Cash received from patient and resident services	\$ 3,625,491	\$ 3,476,856
Cash paid to employees for services	(2,311,157)	(2,254,530)
Cash paid to City of Bowdle for goods and services	(8,120)	(4,536)
Cash paid to suppliers for goods and services	(1,316,094)	(1,288,849)
Other operating revenue	<u>21,453</u>	<u>22,781</u>
<b>NET CASH FROM (USED FOR) OPERATING ACTIVITIES</b>	<u>11,573</u>	<u>(48,278)</u>
<b>NON-CAPITAL FINANCING ACTIVITIES</b>		
Noncapital grants and contributions	<u>16,126</u>	<u>16,759</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchases of property and equipment	(78,626)	(186,643)
Principal paid on long-term debt	(99,988)	(70,207)
Interest paid on long-term debt	(50,433)	(42,951)
Proceeds from notes payable	-	150,477
Capital grants and contributions	-	5,000
Proceeds from sale of equipment	<u>-</u>	<u>200</u>
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(229,047)</u>	<u>(144,124)</u>
<b>INVESTING ACTIVITIES</b>		
Interest on investments	<u>4,401</u>	<u>8,284</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(196,947)</u>	<u>(167,359)</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>664,927</u>	<u>832,286</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 467,980</u></u>	<u><u>\$ 664,927</u></u>

STATEMENTS OF CASHFLOWS – page 2

	2009	2008
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO BALANCE SHEETS		
Cash and cash equivalents in current assets	\$ 363,821	\$ 505,028
Cash - resident trust fund	637	643
Current portion of restricted cash	77,113	79,213
Noncurrent restricted cash	26,409	80,043
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 467,980</u>	<u>\$ 664,927</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating loss	\$ (198,354)	\$ (161,233)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation	263,167	240,491
Amortization	2,093	2,094
Changes in assets and liabilities		
Receivables	102,544	(148,979)
Inventory	(13,622)	10,445
Prepaid expenses	(1,526)	2,751
Accounts payable	(85,977)	(9,888)
Accrued expenses	(57,521)	16,266
Resident trust funds	(6)	2
Deferred revenue	775	(227)
NET CASH FROM (USED FOR) OPERATING ACTIVITIES	<u>\$ 11,573</u>	<u>\$ (48,278)</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL FINANCING ACTIVITY		
Property and equipment financed by capital lease	<u>\$ -</u>	<u>\$ 100,000</u>



**BOWDLE HOSPITAL AND NURSING HOME**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**

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**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

*Organization*

Bowdle Hospital and Nursing Home (Facility) operates a 12-bed hospital, a 28-bed nursing home and several clinics. The Facility is operated as an enterprise fund of the City of Bowdle, South Dakota. These financial statements present only the operations of the Facility, and do not include any other operations of the city of Bowdle, South Dakota.

*Enterprise Fund Accounting*

Pursuant to Government Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and other Governmental Entities that use Proprietary Fund Accounting*, the Facility has applied the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The financial statements have been presented in accordance with generally accepted accounting principles as promulgated by GASB and as recommended in the Audit and Accounting Guide for Health Care Organizations published by the American Institute of Certified Public Accountants.

*Proprietary Fund Accounting*

The Facility utilizes the proprietary fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

The Facility's operating revenues and expenses generally result from providing healthcare services. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Facility's policy to use restricted assets first, then unrestricted assets as they are needed.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and Cash equivalents*

Cash and cash equivalents include highly liquid investments with a maturity of three months or less.

## NOTES TO FINANCIAL STATEMENTS

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### *Patient and Resident Receivables*

Patient and resident receivables are uncollateralized customer and third-party payor obligations. The Facility reserves the right to assess interest on unpaid patient and resident receivables, excluding amounts due from third-party payors. Payments of patient and resident receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and residents and third-party payors. Management reviews patient and resident receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients and residents due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

### *Supplies*

Supplies are stated at lower of cost (first in, first out) or market.

### *Investments and Investment Income*

Investments are stated at fair value. Interest, dividends, gains and losses, both realized and unrealized, on investments are included in nonoperating revenue when earned.

### *Capital Assets*

Capital asset acquisitions in excess of \$5,000 for the hospital and \$1,500 for the nursing home are capitalized and recorded at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these assets lives:

Land Improvements	3-15 years
Buildings and improvements	5-40 years
Equipment	5-20 years

## NOTES TO FINANCIAL STATEMENTS

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### *Deferred Financing Costs*

Deferred financing costs are amortized over the period the related obligation is outstanding using the straight-line method.

### *Grants and Contributions*

From time to time, the Facility receives grants and contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted for an operating purpose are reported as other revenue, unrestricted amounts are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

### *Excess of Expenses over Revenues*

Excess of expenses over revenues excludes transfers of assets to and from related parties for other than goods and services, and contributions of long-lived assets, including assets acquired using contributions which were restricted by donors.

### *Net Assets*

Net assets are presented in the following components:

*Invested in Capital Assets* – Invested in capital assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

*Restricted* – Noncapital net assets that must be used for specific purposes as specified by creditors, grantors, or contributors external to the Facility.

*Unrestricted* – Unrestricted net assets are remaining net assets that do not meet the definition of “invested in capital assets” or “restricted.”

### *Net Patient and Resident Service Revenue*

The Facility has agreements with third-party payors that provide for payments to the Facility at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

### *Charity Care*

The Facility provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Facility does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient and resident service revenue.

## NOTES TO FINANCIAL STATEMENTS

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### *Risk Management*

The Facility is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. Medical malpractice insurance is discussed in Note 12.

### *Compensated Absences*

The Facility has a paid-time-off (PTO) program that allows employees to earn vacation benefits based on length of service. Employees may accumulate PTO up to a specified maximum. Employees are paid for accumulated PTO if employment is terminated.

### *Advertising Costs*

The Facility expenses advertising costs as incurred.

### *Subsequent Events*

The Facility has evaluated subsequent events through April 27, 2010, the date which the financial statements were available to be issued.

## **NOTE 2 - CHARITY CARE**

The Facility maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The amounts of charges foregone, based on established rates, were \$0 and \$2 for the years ended December 31, 2009 and 2008.

## **NOTE 3 - NET PATIENT AND RESIDENT SERVICE REVENUE**

The Facility has agreements with third-party payors that provide for payments to the Facility at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare The Facility is licensed as a Critical Access Hospital (CAH). The Facility is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Facility and are subject to audits thereof by the Medicare intermediary. The Facility's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended December 31, 2007. The Facility's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Facility.

Medicaid Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid on a percentage of charges methodology.

Blue Cross Services rendered to Blue Cross subscribers are reimbursed under a prospectively determined percentage of charges methodology.

## NOTES TO FINANCIAL STATEMENTS

**Nursing Home** The Facility is reimbursed for resident services at established billing rates which are determined on a cost-related basis subject to certain limitations as prescribed by the South Dakota Department of Human Services regulations. These rates are subject to retroactive adjustment by field audit. The Facility also participates in the Medicare program for which payment for resident services is made on a prospectively determined per diem rate which varies based on a case-mix resident classification system.

The Facility has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Facility under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

A summary of patient and resident service revenue and contractual adjustments for the years ended December 31, 2009 and 2008 is as follows:

	2009	2008
Total patient and resident service revenue	<u>\$ 4,560,665</u>	<u>\$ 4,657,828</u>
Contractual adjustments		
Medicare	764,720	732,905
Medicaid	53,341	53,679
Other	128,411	115,317
Provision for bad debts	<u>110,817</u>	<u>126,225</u>
Total contractual adjustments and bad debts	<u>1,057,289</u>	<u>1,028,126</u>
Net patient and resident service revenue	<u>\$ 3,503,376</u>	<u>\$ 3,629,702</u>

### NOTE 4 - DESIGNATED NET ASSETS

Of the \$762,010 and \$847,575 of unrestricted net assets reported in 2009 and 2008, respectively, \$12,696 and \$11,265 have been designated by the Facility's Board of Directors for capital acquisitions. Designated funds remain under the control of the Board of Directors, which may at its discretion later use for other purposes.

### NOTE 5 - RESTRICTED NET ASSETS

The Facility has received support from donors that have limited the use of the donated assets for a specific purpose. The composition of these restricted assets at December 31, 2009 and 2008 is set forth in the following table. These assets are stated at fair value.

By contributors for capital acquisitions		
Cash and cash equivalents	<u>\$ 5,680</u>	<u>\$ 5,616</u>

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 6 - DEPOSITS AND INVESTMENTS

South Dakota statutes require that all municipal deposits are made in qualified public depositories, and that these depositories maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as FDIC and NCUA. As of December 31, 2009 and 2008, all of the Facility's deposits were secured in accordance with these provisions.

#### *Interest Rate Risk*

The Facility does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

#### *Credit Risk*

Investments – In general, SDCL 4-5-6 permits municipal funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no load funds administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b).

#### *Concentration of Credit Risk*

The Facility places no limit on the amount it may invest in any one issuer. The carrying amounts of deposits are included in the Facility's balance sheets as follows:

	2009	2008
Carrying amount		
Deposits	<u>\$ 467,980</u>	<u>\$ 664,927</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 363,821	\$ 505,028
Cash - resident trust fund	637	643
Current restricted cash	77,113	79,213
Noncurrent cash	<u>26,409</u>	<u>80,043</u>
	<u>\$ 467,980</u>	<u>\$ 664,927</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 7 - CAPITAL ASSETS

A summary of property and equipment at December 31, 2009 and 2008 follows:

	December 31, 2008	Additions	Deductions	December 31, 2009
Land	\$ 6,000	\$ -	\$ -	\$ 6,000
Land improvements	390,456	-	-	390,456
Buildings	2,279,644	40,912	-	2,320,556
Fixed equipment	1,032,780	21,254	-	1,054,034
Capitalized leases	132,300	-	-	132,300
Equipment	1,471,798	16,460	-	1,488,258
Totals at historical cost	5,312,978	78,626	-	5,391,604
Less accumulated depreciation:				
Land improvements	299,533	10,112	-	309,645
Buildings	1,349,316	56,732	-	1,406,048
Fixed equipment	613,113	127,461	-	740,574
Capitalized leases	70,816	-	-	70,816
Equipment	1,348,918	68,862	-	1,417,780
Total accumulated depreciation	3,681,696	263,167	-	3,944,863
Capital assets, net	\$ 1,631,282	\$ (184,541)	\$ -	\$ 1,446,741
	December 31, 2007	Additions	Deductions	December 31, 2008
Land	\$ 6,000	\$ -	\$ -	\$ 6,000
Land improvements	390,456	-	-	390,456
Buildings	2,259,921	19,723	-	2,279,644
Fixed assets	879,678	153,102	-	1,032,780
Capitalized leases	32,300	100,000	-	132,300
Equipment	1,457,980	13,818	-	1,471,798
Totals at historical cost	5,026,335	286,643	-	5,312,978
Less accumulated depreciation:				
Land improvements	287,110	12,423	-	299,533
Buildings	1,290,524	58,792	-	1,349,316
Fixed assets	581,520	31,593	-	613,113
Capitalized leases	22,750	48,066	-	70,816
Equipment	1,259,301	89,617	-	1,348,918
Total accumulated depreciation	3,441,205	240,491	-	3,681,696
Capital assets, net	\$ 1,585,130	\$ 46,152	\$ -	\$ 1,631,282

(continued on next page)

## NOTES TO FINANCIAL STATEMENTS

### NOTE 8 - LONG-TERM DEBT

	<u>2009</u>	<u>2008</u>
Long-term debt consists of:		
Certificates of Participation Series Bonds maturing in increasing increments on October 1 of each year, with final maturity on October 1, 2019. Interest is payable semi-annually on April 1 and October 1. The interest rates range from 4.4% to 5.5% based on maturity	\$ 570,000	\$ 620,000
Note Payable Due in monthly installments of \$2,876 including 5.52% interest to October 2013	118,894	146,100
Capitalized lease payable, payments due in monthly installments of \$2,643 through August 2012, which includes interest of 13.35%	70,700	91,545
Capitalized lease payable, payments due in monthly installments of \$654 through March 2009, which includes interest of 7.95%	-	1,937
	<u>759,594</u>	<u>859,582</u>
Less current maturities	<u>(102,327)</u>	<u>(99,786)</u>
Long-term debt, less current maturities	<u>\$ 657,267</u>	<u>\$ 759,796</u>

Future maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 102,327	\$ 43,041	\$ 145,368
2011	107,311	35,858	143,169
2012	101,996	28,033	130,029
2013	77,960	22,764	100,724
2014	55,000	19,600	74,600
2015 - 2019	315,000	52,750	367,750
Total	<u>\$ 759,594</u>	<u>\$ 202,046</u>	<u>\$ 961,640</u>



## NOTES TO FINANCIAL STATEMENTS

	Balance December 31, 2008	New Debt	Principal Paid	Balance December 31, 2009	Principal Due in Fiscal Year Ending December 31, 2010
Certificates of participation	\$ 620,000	\$ -	\$ (50,000)	\$ 570,000	\$ 50,000
Notes payable	146,100	-	(27,206)	118,894	28,658
Capitalized leases	93,482	-	(22,782)	70,700	23,669
	<u>\$ 859,582</u>	<u>\$ -</u>	<u>\$ (99,988)</u>	<u>\$ 759,594</u>	<u>\$ 102,327</u>

  

	Balance December 31, 2007	New Debt	Principal Paid	Balance December 31, 2008	Principal Due in Fiscal Year Ending December 31, 2009
Certificates of participation	\$ 670,000	\$ -	\$ (50,000)	\$ 620,000	\$ 50,000
Notes payable	-	150,477	(4,377)	146,100	27,123
Capitalized lease	9,312	100,000	(15,830)	93,482	22,663
	<u>\$ 679,312</u>	<u>\$ 250,477</u>	<u>\$ (70,207)</u>	<u>\$ 859,582</u>	<u>\$ 99,786</u>

Substantially all of the assets of the Facility have been pledged as collateral for these debt obligations. In addition, under the terms of the certificate of participation indenture, the Facility is required to maintain certain deposits with a trustee. Such deposits are included with restricted cash in the balance sheet.

### NOTE 9 - LEASES

The Facility incurred expenses for short term leases of \$32,693 and \$32,851 for the years ended December 31, 2009 and 2008. In addition the Facility leases certain equipment under noncancelable long-term capital lease agreements. The Capitalized leased assets consist of:

	2009	2008
Major moveable equipment	\$ 132,300	\$ 132,300
Less accumulated amortization (included as depreciation on the accompanying financial statements)	(82,300)	(45,737)
	<u>\$ 50,000</u>	<u>\$ 86,563</u>

Minimum future lease payments for the capital lease is as follows:

<u>Year Ending December 31,</u>	<u>Capital</u>
2010	\$ 31,710
2011	31,710
2012	<u>21,022</u>
Total lease payments	84,442
Less interest	<u>(13,742)</u>
Total principal payments	<u>\$ 70,700</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 10 - CONCENTRATION OF CREDIT RISK

The Facility grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients and residents at December 31, 2009 and 2008 was as follows:

	2009	2008
Private Pay	45%	32%
Medicare	20%	38%
Medicaid	13%	13%
Commercial	13%	6%
Blue Cross Blue Shield	9%	11%
	<u>100%</u>	<u>100%</u>

### NOTE 11 - FUNCTIONAL EXPENSES

The Facility provides health care services to residents within its geographic location. Expenses related to providing these services by functional class for the years ended December 31, 2009 and 2008 are as follows:

	2009	2008
Patient and resident health care services	\$ 3,526,173	\$ 3,585,267
General and administrative	<u>215,812</u>	<u>228,676</u>
	<u>\$ 3,741,985</u>	<u>\$ 3,813,943</u>

### NOTE 12 - CONTINGENCIES

#### *Liability Insurance*

The Facility purchases liability insurance for risks related to torts and theft or damage to property from a commercial insurance carrier.

#### *Malpractice Insurance*

The Facility has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis. Should the claim-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

#### *Workmen's Compensation*

The Facility purchase liability insurance for workmen's compensation from a commercial carrier.

#### *Unemployment Benefits*

The Facility provides coverage for unemployment benefits by paying into the Unemployment Compensation fund established by state law and managed by the State of South Dakota.



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## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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The Board of Directors  
Bowdle Hospital and Nursing Home  
Bowdle, South Dakota

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Eide Bailly LLP*

Sioux Falls, South Dakota  
April 27, 2010

**BOWDLE HOSPITAL AND NURSING HOME**  
**SCHEDULES OF NET PATIENT AND RESIDENT SERVICE REVENUE**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
<b>PATIENT AND RESIDENT SERVICE REVENUE</b>		
Nursing home	\$ 1,112,417	\$ 1,050,791
Room/board	657,470	731,250
Laboratory	539,348	573,490
Pharmacy	415,205	460,906
Bowdle Clinic	398,547	393,627
Radiology	279,169	354,690
Emergency services	235,295	231,003
Physical therapy	180,513	68,042
Operating rooms	119,887	111,350
Central services and supply	101,707	120,961
Ambulance	96,592	108,398
Assisted living room	88,337	84,053
Public health	64,059	66,356
EKG	60,641	66,863
Observation	55,865	48,714
Home health	44,462	54,491
Roscoe Clinic	34,033	22,675
Respiratory therapy	21,911	31,554
Occupational therapy	20,982	36,618
Hosmer Clinic	17,461	20,650
Cardiac rehab	16,764	20,598
EEG	-	750
Charity care	-	(2)
	<u>4,560,665</u>	<u>4,657,828</u>
<b>CONTRACTUAL ADJUSTMENTS AND BAD DEBTS</b>		
Medicare	764,720	732,905
Medicaid	53,341	53,679
Other	128,411	115,317
Provision for bad debts	110,817	126,225
	<u>1,057,289</u>	<u>1,028,126</u>
<b>NET PATIENT AND RESIDENT SERVICE REVENUE</b>	<u><u>\$ 3,503,376</u></u>	<u><u>\$ 3,629,702</u></u>

**BOWDLE HOSPITAL AND NURSING HOME**  
**SCHEDULES OF OTHER REVENUE**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

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	<u>2009</u>	<u>2008</u>
OTHER REVENUE		
Grant revenue	\$ 26,325	\$ 13,295
Wellness dues	1,528	1,562
Other	<u>12,402</u>	<u>8,151</u>
TOTAL OTHER REVENUE	<u>\$ 40,255</u>	<u>\$ 23,008</u>

**BOWDLE HOSPITAL AND NURSING HOME**  
**SCHEDULES OF EXPENSES**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

	2009	2008
<b>ROUTINE SERVICES</b>		
Salaries and wages	\$ 342,447	\$ 383,225
Supplies and other expenses	36,081	33,354
	<u>378,528</u>	<u>416,579</u>
<b>NURSING HOME</b>		
Salaries and wages	682,183	695,565
Supplies and other expenses	222,457	242,720
	<u>904,640</u>	<u>938,285</u>
<b>OPERATING ROOMS</b>		
Salaries and wages	4,061	4,193
Supplies and other expenses	13,512	16,283
	<u>17,573</u>	<u>20,476</u>
<b>CENTRAL SERVICES AND SUPPLY</b>		
Salaries and wages	12,944	5,682
Supplies and other expenses	19,175	11,783
	<u>32,119</u>	<u>17,465</u>
<b>EMERGENCY SERVICES</b>		
Salaries and wages	93,401	38,418
Supplies and other expenses	70,068	102,075
	<u>163,469</u>	<u>140,493</u>
<b>LABORATORY</b>		
Salaries and wages	82,234	80,151
Supplies and other expenses	173,062	178,813
	<u>255,296</u>	<u>258,964</u>
<b>ELECTROCARDIOLOGY</b>		
Supplies and other expenses	3,780	4,928
<b>RADIOLOGY</b>		
Salaries and wages	40,541	41,045
Supplies and other expenses	88,588	96,233
	<u>129,129</u>	<u>137,278</u>

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**SCHEDULES OF EXPENSES (continued)**

	<u>2009</u>	<u>2008</u>
<b>PHARMACY</b>		
Supplies and other expenses	<u>\$ 96,017</u>	<u>\$ 117,037</u>
<b>RESPIRATORY THERAPY</b>		
Supplies and other expenses	<u>21,231</u>	<u>19,839</u>
<b>PHYSICAL THERAPY</b>		
Salaries and wages	3,918	2,940
Supplies and other expenses	<u>90,648</u>	<u>52,473</u>
	<u>94,566</u>	<u>55,413</u>
<b>OCCUPATIONAL THERAPY</b>		
Supplies and other expenses	<u>24,790</u>	<u>52,631</u>
<b>CARDIAC REHAB</b>		
Salaries and wages	5,385	4,713
Supplies and other expenses	<u>4,517</u>	<u>374</u>
	<u>9,902</u>	<u>5,087</u>
<b>AMBULANCE</b>		
Salaries and wages	27,939	26,252
Supplies and other expenses	<u>8,781</u>	<u>11,758</u>
	<u>36,720</u>	<u>38,010</u>
<b>HOME HEALTH</b>		
Salaries and wages	28,392	33,631
Supplies and other expenses	<u>3,784</u>	<u>4,482</u>
	<u>32,176</u>	<u>38,113</u>
<b>BOWDLE CLINIC</b>		
Salaries and wages	239,715	227,576
Supplies and other expenses	<u>45,320</u>	<u>48,087</u>
	<u>285,035</u>	<u>275,663</u>
<b>HOSMER CLINIC</b>		
Salaries and wages	20,289	18,162
Supplies and other expenses	<u>5,589</u>	<u>6,228</u>
	<u>25,878</u>	<u>24,390</u>

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**SCHEDULES OF EXPENSES (continued)**

	2009	2008
<b>ROSCOE CLINIC</b>		
Salaries and wages	27,287	25,575
Supplies and other expenses	10,964	11,750
	<u>38,251</u>	<u>37,325</u>
<b>PUBLIC HEALTH</b>		
Salaries and wages	40,044	32,925
Supplies and other expenses	6,791	7,679
	<u>46,835</u>	<u>40,604</u>
<b>MEDICAL RECORDS</b>		
Salaries and wages	34,895	33,428
Supplies and other expenses	1,085	1,252
	<u>35,980</u>	<u>34,680</u>
<b>DIETARY</b>		
Salaries and wages	19,965	16,171
Supplies and other expenses	20,370	15,034
	<u>40,335</u>	<u>31,205</u>
<b>PLANT OPERATION AND MAINTENANCE</b>		
Salaries and wages	35,988	29,455
Supplies and other expenses	77,463	67,255
	<u>113,451</u>	<u>96,710</u>
<b>HOUSEKEEPING</b>		
Salaries and wages	19,512	23,406
Supplies and other expenses	5,912	6,662
	<u>25,424</u>	<u>30,068</u>
<b>LAUNDRY AND LINEN</b>		
Salaries and wages	50	-
Supplies and other expenses	329	1,030
	<u>379</u>	<u>1,030</u>
<b>SOCIAL SERVICES</b>		
Salaries and wages	2,007	1,777
Supplies and other expenses	22	35
	<u>2,029</u>	<u>1,812</u>

(continued on next page)



**SCHEDULES OF EXPENSES (continued)**

	<u>2009</u>	<u>2008</u>
<b>ADMINISTRATIVE SERVICES</b>		
Salaries and wages	\$ 135,118	\$ 130,354
Supplies and other expenses	<u>80,694</u>	<u>98,322</u>
	<u>215,812</u>	<u>228,676</u>
<b>UNASSIGNED EXPENSES</b>		
Depreciation and amortization	265,260	242,585
Insurance	92,060	88,576
Employee benefits	<u>355,320</u>	<u>420,021</u>
	<u>712,640</u>	<u>751,182</u>
Total expenses	<u>\$ 3,741,985</u>	<u>\$ 3,813,943</u>



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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To the Board of Directors  
Bowdle Hospital and Nursing Home  
Bowdle, South Dakota

We have audited the financial statements of Bowdle Hospital and Nursing Home, an enterprise fund of the City of Bowdle, South Dakota, as of and for the year ended December 31, 2009, and have issued our report thereon dated April 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bowdle Hospital and Nursing Home's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bowdle Hospital and Nursing Home's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Bowdle Hospital and Nursing Home's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Current Audit Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting (findings 05-1, 06-1, and 09-1). A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge with governance.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bowdle Hospital and Nursing Home, an enterprise fund of the City of Bowdle, South Dakota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standard* and which are described in the accompanying Schedule of Current Audit Findings and Responses as item 05-3.

We noted certain matters that we reported to management of Bowdle Hospital and Nursing Home in a separate letter dated April 27, 2010.

Bowdle Hospital and Nursing Home's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings and Responses. We did not audit the responses of Bowdle Hospital and Nursing Home and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management, the City of Bowdle, South Dakota and the South Dakota Legislature and is not intended and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, reading "Eide Bailey LLP". The signature is written in a cursive, flowing style.

Sioux Falls, South Dakota  
April 27, 2010

**BOWDLE HOSPITAL AND NURSING HOME**  
**STATEMENT OF FINDINGS AND RESPONSES**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

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**FINDING 05-1 – Segregation of Duties**

*Condition:* The Facility has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in certain areas because of a lack of segregation of duties. The chief financial officer handles multiple accounting functions, including posting transactions to the general ledger, preparing monthly reconciliations, preparing checks, and posting manual adjusting journal entries.

*Criteria:* A good system of internal accounting control contemplates an adequate segregation of duties so that not one individual handles a transaction from its inception to its completion.

*Effect:* Inadequate segregation of duties could adversely affect the Facility's ability to detect misstatements that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

*Recommendation:* While we recognize that your office staff may not be large enough to assure optimal internal control, it is important that you are aware of this condition. Under this condition, management's close supervision and review of accounting information is the best means of preventing and detecting errors and irregularities.

*Response:* Management does not plan to respond to the finding, as management believes that it is not possible to implement a cost effective solution at this time.

**FINDING 05-3 - Foundation**

*Condition:* The Facility expensed \$168,928 of fundraising costs during the year ended December 31, 2004 on behalf of a local Foundation, which is not allowed under South Dakota Codified Law 6-14-1. The Facility has received funds from the Foundation over the last several years which has been applied toward these costs. After deducting these funds the unreimbursed portion of the fundraising costs was \$129,048 at December 31, 2009.

*Criteria:* South Dakota Codified Law 6-14-1 does not authorize the expenditure for costs to generate gifts, bequests, or donations.

*Effect:* These payments resulted in nonallowable expenditures by the Facility.

*Recommendations:* The Facility should continue to work with the Foundation on this matter.

*Response:* Management is aware of the finding and is working with the Foundation to resolve this matter.

**BOWDLE HOSPITAL AND NURSING HOME**  
**STATEMENT OF FINDINGS AND RESPONSES**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

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**FINDING 06-1 – Financial Reporting**

*Condition:* The Facility does not have an internal control system designed to provide for the preparation of the financial statements in accordance with accounting standards generally accepted in the United States of America.

*Criteria:* A good system of internal control contemplates the ability on the part of management to prepare complete financial statements which includes all footnote disclosures and limited required adjustments in accordance with general accepted accounting principles.

*Effect:* The inability to prepare the financial statements in accordance with accounting standards generally accepted in the United States of America, may affect the ability to properly report the Facility's financial position and results of operations.

*Recommendations:* While we recognize that management may not have the experience and expertise to prepare the financial statements, it is important that you aware of this condition.

*Response:* Management has requested that the auditors draft the financial statements and accompanying notes to the financial statements in accordance with generally accepted accounting principles as management believes it is not possible to implement a cost effective solution at this time.

**FINDING 09-1 – Estimated Settlements with 3<sup>rd</sup> Party Payors**

*Condition:* The Facility is licensed as a critical access hospital (CAH) for purposes of Medicare reimbursement. As a CAH the Facility is reimbursed at cost for providing services to patients who receive benefits from the Medicare program. Medicare does reimburse the Facility at an estimated rate during the year and then makes a settlement between these interim payment rates and the cost of providing these services.

*Criteria:* The Facilities accounting procedures should provide a means to estimate the settlement with the Medicare program and incorporate the estimate into the monthly financial statements.

*Effect:* Improper estimates of the Medicare settlement will result in inaccurate financial statements.

*Recommendations:* We recommend management take steps to adjust the third party payor account on a monthly basis in order to avoid possible large adjustments at year end.

*Response:* Management will evaluate and adjust the third party payor receivable/payable during the course of the year.

**BOWDLE HOSPITAL AND NURSING HOME**  
**STATEMENT OF PRIOR AUDIT FINDINGS**  
**YEARS ENDED DECEMBER 31, 2009 AND 2008**

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**STATUS OF PRIOR AUDIT FINDINGS AND RESPONSES**

**FINDING 05-1 – Segregation of Duties**

*Condition:* The Facility has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in certain areas because of a lack of segregation of duties.

*Criteria:* A good system of internal accounting control contemplates an adequate segregation of duties so that not one individual handles a transaction from its inception to its completion.

*Status:* REPEATED

**FINDING 05-3 - Foundation**

*Condition:* The Facility expensed fundraising costs during the year ended December 31, 2004 on behalf of a local Foundation, which is not allowed under South Dakota Codified Law 6-14-1.

*Criteria:* South Dakota Codified Law 6-14-1 does not authorize the expenditure for costs to generate gifts, bequests, or donations.

*Status:* REPEATED

**FINDING 06-1 – Financial Reporting**

*Condition:* The Facility does not have an internal control system designed to provide for the preparation of the financial statements in accordance with generally accepted accounting principles.

*Criteria:* A good system of internal control contemplates the ability on the part of management to prepare complete financial statements which includes all footnote disclosures in accordance with general accepted accounting principles.

*Status:* REPEATED